German capitalism - does it exist, can it survive? Wolfgang Streeck

Does an internationally competitive, high-wage, and egalitarian economy, governed by nationally specific social institutions exist?

The economic institutions of post war German capitalism:

- Politically instituted and socially regulated markets which are regarded as creations of public policy and deployed to serve public purposes.
- Firms are social institutions not just networks of private contracts or the property of shareholders
- An enabling state constitutionally dedicated to competitive markets, a hard currency and collective goods that underpin instituted markets
- Organised cooperation among competitors and bargaining among organised groups, conducted through publicly enabled associations, performing quasi-public functions.
- Traditionalist economic culture that has a preference for quality competitive international markets over price competitive markets

Institutional structure and economic performance

Institutions impose beneficial constraints upon firms that offer opportunities for strategic upgrading and cooperative upgrading of skills, technology, work organisation and products through associational unions and employers.

Three conditions of success:

- A worldwide market for quality competitive goods
- Product innovation
- The labour supply must ensure work for a high skill workforce

Will social institutions that rule out low wage employment in order to generate high wage employment, in today's global societies, be demolished by international market forces?
Can the German model survive?

- Endogenous exhaustion of the model (unemployment and working time response)
- Shock of German unification
- Globalisation and capital mobility

The parochialism of nationally organised capitalism means that:

- National boundaries appear doomed to fail in the course of globalisation
- International markets are constructed through diplomacy not the complex domestic class politics that gave rise to *soziale marktwirtschaft*.
- The German firm cannot be extended outside its institutional context
- The European community cannot be an enabling state, with the capacity to equalise living conditions, European monetarism is not supplemented with associational self-governance

German associations prosper because of their close association to the German state; no state exists in the international economy. All that exists at the international level are large MNC firms. For Streeck the German model is exhausting because of endogenous factors.

The model is premised on the limited mobility of production factors across national borders, a situation that has now ended, furthermore the domestic politics of class conflict that constituted the domestic regime has been replaced by international diplomacy of market making, ruling out the drive toward accommodating conflicting political interests.

Hence, market modifying and market correcting political intervention in the economy, including publicly enabled self-regulation, can only take place within nation state. The German model cannot be exported, and globalisation and Europeanisation favour nations systems such as the liberal market economies of the USA and UK. In recognition of this much of the focus shifted to asking whether the German model could be recreated at the ‘European’ level.

**Between Efficiency and Experimentation – Maarten Rhodes**

The attempt to coordinate an employment policy for the European Union has been made difficult by member-state diversity in employment regulation and industrial relations practices. But this is not to say that there have been no developments at a European level. Three modes of policy making can be observed:

- ECJ law on employment rights,
- Collective agreements by EU social partners,
- Open methods of coordination to promote employment.

The flexicurity paradigm seeks to facilitate temporary part time work by loosening employment protection whilst providing for income security in social policy. Innovation and contestation comes from three directions in Europe:

- The emergence of a crisis of ‘welfare without work’
• The close coupling of national pensions, social security and unemployment benefits with employment regimes

• Conflict and contestation between supporters and opponents of an EU wide social and employment regime

Legislation employs legal instruments that bind national governments to European directives. These have caused most consternation in Ireland and the UK. But this legislation usually sets a minimum standard and allows member-states to implement more stringent rules.

Employment policy before Amsterdam was a response to the market. After Amsterdam, social rights were accorded more priority because of a relatively centre left leaning commission.

Mode one: the community method and the EU regulatory model

Articles 117-122 in the Treaty of Rome (social issues) were designed to correct market failures not create a supranational welfare state. National regimes would remain distinct. The Germans opposed any legal competence in this area. Even articles 118a in health and safety, after the Single European Act, were defended not on the basis of social rights but correcting market distortions.

The attempt to bring labour market policy, workers representation and consultation, into qualified majority voting (QMV), after Maastricht, by northern member-states was effectively blocked by the UK. The final agreement on the social protocol by eleven member states, with opt out from the UK, only included health and safety, and equality at work.

In 1997, after the Treaty of Amsterdam, QMV was extended to workers information and consultation. The UK, under New Labour, opted out again. The commission has adopted various strategies to stretch the interpretation of health and safety regulation to enable proposal gets passed under QMV, and to avoid opposition from the UK. The subsequent raft of social policies in the post-Maastricht era could be considered an outcome of policy activism by the EU Commission.

The general conclusion to be observed from the community method on employment policies is the severe limitations to hard-law harmonisation across an increasingly diverse set of member-states. They did, however, place a minimum floor of standards to prevent competitive de-regulation. The latter has been transferred on to labour costs.

The double cleavage in EU employment policy: national v’ European, less v’ more flexible

Mode two: social dialogue and collective agreement

After Maastricht, a new social policy innovation emerged to supplement and act as an alternative to hard legislation: social dialogue. This reflects the tradition in Europe of corporatist subsidiarity, whereby trade unions and employers co-govern many labour market related issues.

German unions considered this a mechanism to bolster the ETUC, whilst others considered it a mechanism to get around the UK veto. For the UNICE, later Business Europe, it was a mechanism to divert the Commission from the standard legislative path.

After the social protocol of Maastricht, the Commission was obliged to consult the EU social partners before making submissions to the Council, on the consequences of community action. Minimal standard directives on parental leave, part time work, and fixed term work were all passed under the social protocol. But most member states did not need to change legislation to implement these.
It was Ireland, the UK and countries with voluntarist traditions that were benefited or constrained the most (depending on one’s political perspective).

Employment policy innovations post Amsterdam

*Mode three: the EES and the OMC*

The European Employment Strategy (EES) in 1997 was a soft law instrument promoted by pro-Europe social elites as a response to the EMU, which was considered to present a threat to national welfare states. But it was also a response by the same coalition to the failures and blockage of the two other policy modes.

Its origins and development can be traced to social democrats building a coalition with the council and commission. The variation over time can, arguably, be traced to shifting political interests and power games between the council and commission. Since 1997, nineteen EEGs have been issued.

It received more political salience after the endorsement of the open method of coordination, endorsed at Lisbon in 2000, and extended to other policy areas. This was considered by some as a new mode of governance, based on problem solving, agenda setting and policy learning. It heavily influenced the policy process of social partnership in Ireland, and arguably its demise. Both processes sidestepped parliament and formal institutions (and, perhaps, for good reason).

At best the EES and OMC have encouraged greater coordination and cooperation among certain government ministers, and between administrations and interest groups (much like post-2000 Irish social partnership). It reinforces the liberal – and subsidiarity oriented - member state led labour market strategy, rather than building a social democratic federalism.

A new source of contestation: social versus economic rights in EU law

The ECJ reinforces the view from Rome onwards that EU social policy provides a minimum floor rather than a mechanism to extend upward harmonisation of member-state social and employment policy. But in some cases it has privileged national social protections ahead of market freedoms.

Laval and Viking are two clear cases where market freedoms trumped social rights, and national regulatory employment protection regimes.

It states that the Latvian company, Laval, which posted workers to Sweden, is not required to adhere to the collective agreement within the Swedish construction industry. This decision relates directly to the scope of the EU directive on posted workers. According to some commentators, the ruling goes against the directive’s aims and could represent a landmark in the promotion of wage dumping.

In Viking, a strike by the Finnish seaman’s union against a Finnish company that flagged a ferry operating out of Helsinki as Estonian was judged to be an interference with the company’s right under ART43 preventing restrictions in freedom of establishment.

All of this directly challenged national standards on the right to strike and the right to establish national standards of collective bargaining.

We will now look at the specific impact of EMU on national industrial relations before examining Germany as a case study of labour market reforms.

European Integration, EMU and Industrial Relations
Introduction: contested terrain

What is the impact of EMU on the institutions of industrial relations and their outcomes?

The intrinsic importance of employment governance is not readily appreciated. This is despite the fact that almost half of the EU’s population, 168 million, is in some form of paid employment. With the supply side revolution in macroeconomics, labour relations have tended to become subsumed under questions of competitiveness. It is seen as a constraint on competitiveness and flexibility.

EMU and its implications – threats and opportunities

The single currency, it was hoped, would be a catalyst for change, with competition, transparency of trade, prices and industry restructuring for a global market, being the defining feature. It would also bring low inflation and a stable macroeconomic environment. Furthermore a large capital Euro market would provide a more liquid finance market that would benefit all.

Whilst a single product and capital market emerged, the latter having unforeseen and asymmetrical consequences, and large MNCs in the super league of global capitalism consolidated their position, this was not the case for labour markets. These remain national and in competition with one another.

The three problematic features of EMU that many observers documented have come to pass: a common taxation policy and fiscal transfers, narrow institutional remit of ECB, and asymmetrical implications of an economic shock, and regime competition in labour costs.

The asymmetry of economic and social integration

Most actors in the EU assumed fiscal and social policies would undergo a process of market harmonisation with the advent of EMU. Social democrats and the ETUC supported EMU in realisation that Keynesianism in one country is no longer possible, and as a mechanism to advance a political and social union.

EMU and industrial relations – competing perspectives

EMU = Europeanisation.

But the latter concept can be understood as either a process of common objectives, instruments and setting or an end goal such as a European federation of states. The declining governability brought about by the European market has led some to conclude that social and employment policies must follow this transnational trend. The implication is less and less variation between national regimes. This reflects a variant of neo-functionalist reasoning in which social and political union are seen as spill over effects of economic union. Those who consider Europeanisation as a tendency has the advantage of analysing not just the national or transnational but sectoral and company level behaviour.

EMU = Americanisation.

At the macro level one could argue that the highly restrictive macroeconomic regime of EMU encourages fragmentation. This is certainly true; supply side reforms can never generate enough employment in the absence of sufficient aggregate demand. European trade unions, in a context of product and market integration, are, arguably in the same position as US unions in the 1930s. Some argue that the choice is quite simple: either centralise their structures to cope with the single market or faced the same fate as US unions in the 70’s and 80’s. Persistence, however, can be traced to the legal framework of multi-employer bargaining and trade union organisation in key sectors of some countries.
EMU = Re-nationalisation

To compensate for European market trends, government might, contrary to what one might assume, re-nationalise industrial relations given that it is one of the few remaining policy tools to coordinate their economies in the EMU. This, however, is not likely to contain micro pressures of intensified competition.

Convergence and diversity

In comparative industrial relations path dependency is the dominant analytic paradigm. CMEs have multi-employer bargaining and legal frameworks that support collective bargaining. LMEs have single employer bargaining and less supportive legal frameworks. Input convergence does not necessarily imply policy, process and outcome convergence.

Globalisation or Europeanisation

Globalisation is about the expansion of international markets for products, the spatial extension of market competition as new regimes emerge, market de-regulation, liberalisation of finance, the internationalisation of MNCs. Regionalisation is a much better concept to analyse this empirically.

What S&M are trying to do, using an actor centred institutional framework is to analyse and appreciate the multi-level governance arrangements that are emerging. A pure vertical system is not and probably will not emerge. EMU has increased constraints but diversity persists.